

**ALLEGAN PUBLIC SCHOOLS**  
**REPORT ON FINANCIAL STATEMENTS**  
**(with required supplementary and additional information)**  
**YEAR ENDED JUNE 30, 2005**

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## INDEPENDENT AUDITORS' REPORT

To the Board of Education  
Allegan Public Schools  
Allegan, Michigan

August 5, 2005

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Allegan Public Schools, as of and for the year ended June 30, 2005, which collectively comprise the School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Allegan Public Schools' management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of Allegan Public Schools as of June 30, 2005 and the respective changes in financial position, thereof, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 5, 2005, on our consideration of Allegan Public Schools' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

To the Board of Education  
Allegan Public Schools

August 5, 2005

The management's discussion and analysis and budgetary comparison information on pages vi through xii and page 26, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Allegan Public Schools' basic financial statements. The additional information on pages 28 to 42 is presented for purposes of additional analysis and is not a required part of the basic financial statements. This additional information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

A handwritten signature in black ink that reads "Mamer, Costenaro & Ellis, P.C." in a cursive script.

Certified Public Accountants

## MANAGEMENT DISCUSSION AND ANALYSIS (GASB Statement #34)

This section of Allegan Public Schools' (APS) annual financial report presents an analysis of the District's financial performance during the fiscal year that ended on June 30, 2005.

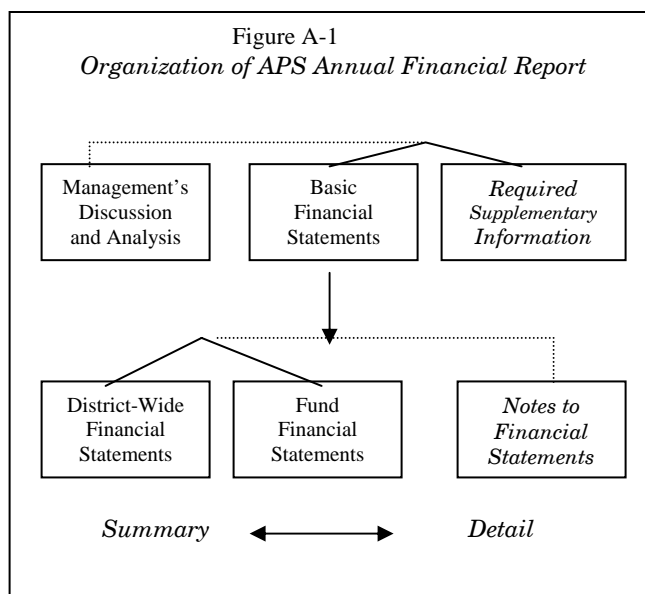
### FINANCIAL HIGHLIGHTS

- The District's financial status remained stable; however total net assets decreased (\$200,166).
- Overall revenues were \$26,240,504, fully (\$200,166) less than expenses.
- The total cost of basic programs was \$26,440,670.
- Student enrollment remained virtually stable.
- The District reduced its outstanding long-term debt \$1,445,262.

### OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of three parts: management's discussion and analysis (this section), the basic financial statements, and required supplementary information. The basic financial statements include various kinds of statements that present different views of the District:

- The first two statements are district-wide ***financial statements*** that provide both short-term and long-term information about the District's overall financial status.
- The remaining statements are ***fund financial statements*** that focus on individual parts of the District, reporting the District's operations in more detail than the district-wide statements.
- The ***governmental funds statements*** tell how basic services like regular and special education were financed in the short-term as well as what remains for future spending.
- ***Fiduciary funds statements*** provide information about the financial relationships in which the District acts solely as a trustee or agent for the benefit of others.



The financial statements also include notes that explain some of the information in the statements and provide more detailed data. The statements are followed by a section of *required supplementary information* that further explains and supports the financial statements with a comparison of the District's budget for the year. Figure A-1 shows how the various parts of this annual report are arranged and related to one another.

<b>Figure A-2</b> <b>Major Features of District-Wide and Fund Financial Statements</b>			
Scope	District-wide Statements	Fund Financial Statements	
		Governmental Funds	Fiduciary Funds
	Entire district (except fiduciary funds)	The activities of the district that are not proprietary or fiduciary, such as special education and building maintenance.	Instances in which the district administers resources on behalf of someone else, such as scholarship programs and student activities monies
Required financial statements	* Statement of net assets * Statement of activities	* Balance sheet * Statement of revenues, expenditures and changes in fund balances	* Statement of fiduciary net assets * Statement of changes in fiduciary net assets
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both short-term and long-term, Allegan Public Schools' funds do not currently contain capital assets, although they can
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year, expenditures when goods or services have been received and the related liability is due and payable	All additions and deductions during the year, regardless of when cash is received or paid

Figure A-2 summarized the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain. The remainder of this overview section of management's discussion and analysis highlights the structure and contents of each of the statements.

## DISTRICT-WIDE STATEMENTS

The district-wide statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The statements of net assets includes *all* of the District's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two district-wide statements report the District's *net assets* and how they have changed. Net assets – the difference between the District's assets and liabilities – are one way to measure the District's financial health or *position*.

- Over time, increases or decreases in the District's net assets are an indicator of whether its financial position is improving or deteriorating, respectively.
- To assess the overall health of the District, you need to consider additional nonfinancial factors such as changes in the District's property tax base and the condition of school buildings and other facilities.

In the district-wide financial statements, the District's activities:

- *Governmental activities* – Most of the District's basic services are included here, such as regular and special education, transportation and administration. Property taxes and state formula aid finance most of these activities.

## **FUND FINANCIAL STATEMENTS**

The fund financial statements provide more detailed information about the District's funds, focusing on its most significant or "major" funds – not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs:

- Some funds are required by State law and by bond covenants.
- The District establishes other funds to control and manage money for particular purposes (like repaying its long-term debts) or to show that it is properly using certain revenues (like school lunch and athletics).

The District has two kinds of funds:

- Governmental funds – Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps to determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of the district-wide statements, we provide additional information with the governmental funds statements that explains the relationship (or differences) between them.
- Fiduciary funds – The District is the trustee, or fiduciary, for assets that belong to others, such as the scholarship fund and the student activities funds. The District is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. We exclude these activities from the district-wide financial statements because the District cannot use these assets to finance its operations.

## **FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE**

### **Net assets**

The District's combined net assets were less on June 30, 2005, than they were the year before by (\$200,166).



<b>Table A-3</b>		
<b>Allegan Public Schools' Net Assets</b>		
	2005	2004
Current assets	\$ 6,423,173	\$ 6,888,727
Capital assets	50,520,204	52,029,301
Total assets	56,943,377	58,918,028
Long-term debt outstanding	43,497,817	45,430,456
Other liabilities	6,383,846	6,225,692
Total liabilities	49,881,663	51,656,148
Net assets:		
Invested in capital assets, net of related debt	4,849,174	4,914,177
Restricted		74,556
Unrestricted	2,212,540	2,273,147
Total net assets	\$ 7,061,714	\$ 7,261,880

<b>Table A-4</b>		
<b>Changes in Allegan Public Schools' Net Assets</b>		
	2005	2004
Revenues:		
Program revenues:		
Charges for services	\$ 551,968	\$ 504,906
Federal and state categorical grants (operating grants)	1,556,032	1,748,676
General revenues:		
Property taxes	6,184,994	5,731,652
State aid - unrestricted	16,978,327	17,357,796
Other	969,183	855,636
Total revenues	26,240,504	26,198,666
Expenses:		
Instruction	13,216,408	13,301,940
Support services	7,954,582	8,144,075
Community services	204,568	164,487
Food services	853,534	855,357
Athletics	594,026	720,655
Interest on long-term debt	1,902,504	2,266,894
Unallocated depreciation	1,715,048	1,872,283
Total expenses	26,440,670	27,325,691
Decrease in net assets	\$ (200,166)	\$ (1,127,025)

## **District Governmental Activities**

The current status of the District's finances can be credited both to a struggling State economy and innovative management changes and belt-tightening:

- The State maintained the foundation allowance of \$6,700 per pupil.
- The District successfully negotiated labor contracts with nearly all employee groups that included 0% increases in salaries (other than step increases already negotiated).
- The District continued to maintain an Efficiency Plan which was implemented to include economies in staff professional development, field trips, transportation, athletics, professional staffing, instructional assistants, and maintenance/custodial services. The goal remains to initiate changes that reduce the cost of operating the District and reinvest the savings in programs to modernize and raise the quality of education.
- The District initiated an Energy Management program with an estimated annual cost avoidance savings of \$80,000 (from November 2004 through June 2005).

These actions resulted in continued savings to the District for school year 2004-05.

## **FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS**

The strong financial performance of the District as a whole is reflected in its governmental funds as well. As the District completed the year, its governmental funds reported combined fund balances of \$2,678,177, which is below last year's ending fund balances of \$2,839,640.

The majority of the District's governmental funds had more revenues than expenditures in 2005; thereby contributing to the increase in total fund balance. The funds that ran a deficit were the Debt Service Funds and the Special Revenue Funds (that record the School Lunch Fund, the Athletic Fund, and the Community Services Fund). In the School Lunch Fund, expenditures were approximately \$4,298 above revenues after transfers in.

Enrollment in the District was 2,951 compared to 2,996 students in the prior year.

### **General Fund Budgetary Highlights:**

Over the course of the year, the District revised the annual operating budget several times. These budget amendments are:

- Changes made in the second and fourth quarters to account for final enrollment counts and changes in assumptions since the original budget was adopted.
- While the District's final budget for the general fund anticipated that revenues would be exceeded by expenditures, the actual results for the year show a \$41,035 surplus.
- Actual revenues were \$153,967 greater than expected, due largely to State Aid payments.
- The actual expenditures were \$201,763 below budget, due primarily to staff downsizing and operational efficiencies implemented during the year.
- Actual expenditures for maintenance and operations of school facilities were \$153,451 below budgeted levels.

## CAPITAL ASSET AND DEBT ADMINISTRATION

### Capital Assets

By the end of 2005 the District had invested \$68.1 million in a broad range of capital assets, including school buildings, athletic facilities, computer and audiovisual equipment and administrative offices. This amount represents a net increase of \$168,000. (More detailed information about capital assets can be found in Note 4 to the financial statements.) Total depreciation expense for the year exceeded \$1.8 million.

**Table A-5**  
**Allegan Public Schools' Capital Assets**

	2005			2004
	Cost	Accumulated depreciation	Net book value	Net book value
Land	\$ 178,900	\$	\$ 178,900	\$ 178,922
Buildings & additions	58,712,170	11,441,088	47,271,082	48,586,548
Technology	1,842,688	1,541,243	301,445	405,016
Athletic equipment	808,458	378,697	429,761	468,850
General equipment	4,910,100	3,181,201	1,728,899	1,975,615
Transportation equipment	1,688,181	1,260,562	427,619	414,372
Total	<u>\$ 68,140,497</u>	<u>\$ 17,802,791</u>	<u>\$ 50,337,706</u>	<u>\$ 52,029,323</u>

The District's fiscal year 2006 capital budget anticipates no significant purchases.

### Long-term Debt

At year-end, the District had \$45.8 million in general obligation bonds and other long-term debt outstanding, a reduction of \$1.4 million. (More detailed information about the District's long-term liabilities is presented in Note 7 to the financial statements.)

- The District continued to pay down its debt, retiring \$1.8 million of outstanding bonds and issued an advance refunding of \$13.4 million, saving future tax payments of \$1,378,000.

<b>Table A-6</b>		
<b>Allegan Public School's Outstanding Long-Term Debt</b>		
<b>2005 - 2004</b>		
<i>(in millions of dollars)</i>		
	2005	2004
General obligation bonds		
(financed with property taxes)	\$ 39.7	\$ 41.4
Other	6.1	5.8
Total	<u>\$ 45.8</u>	<u>\$ 47.2</u>

## **FACTORS BEARING ON THE DISTRICT'S FUTURE**

At the time these financial statements were prepared and audited, the District was aware of three existing circumstances that could significantly affect its financial health in the future:

- The 2005 - 2006 foundation allowance has now been finalized by the State of Michigan at \$6,875 per pupil. The foundation allowance represents 65 percent of the total District revenue.
- The end of fiscal year 2005 marked the expiration of the last one-year teachers' contract, as well as all other employee contracts. Negotiations with the teachers and other employee groups have not been completed for the 05-06 school year (exception: Maintenance/Custodial Unit – SEIU contract has been successfully negotiated).
- The District is plaintiff with other school districts in a lawsuit against the State, seeking to rectify inequities in the formula the State uses to apportion special education aid to the districts. (Durant)

## **CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional information, contact the Superintendent's office, Allegan Public Schools, 550 Fifth Street, Allegan, MI 49010 (269.673.5431).

**ALLEGAN PUBLIC SCHOOLS  
STATEMENT OF NET ASSETS  
JUNE 30, 2005**

	<b>Governmental activities</b>
<hr/>	
<b>ASSETS</b>	
<b>CURRENT ASSETS:</b>	
Cash and cash equivalents	\$ 520,372
Investments	2,557,261
Receivables:	
Other governmental units	3,276,043
Other	10,488
Taxes	15,298
Inventories	43,711
<b>TOTAL CURRENT ASSETS</b>	<hr/> 6,423,173 <hr/>
<b>NONCURRENT ASSETS:</b>	
Deferred bond issuance costs	182,498
Capital assets	68,140,497
Less accumulated depreciation	(17,802,791)
<b>TOTAL NONCURRENT ASSETS</b>	<hr/> 50,520,204 <hr/>
<b>TOTAL ASSETS</b>	<hr/> \$ 56,943,377 <hr/>
<hr/>	
<b>LIABILITIES AND NET ASSETS</b>	
<b>CURRENT LIABILITIES:</b>	
Accounts payable	\$ 182,397
Accrued interest	368,142
Accrued salaries and related items	1,434,778
Note payable	2,098,000
Arbitrage	235,979
Current portion of long term obligations	2,056,550
Current portion of compensated absences	8,000
<b>TOTAL CURRENT LIABILITIES</b>	<hr/> 6,383,846 <hr/>
<b>NONCURRENT LIABILITIES:</b>	
Noncurrent portion of long term obligations	43,378,501
Compensated absences	119,316
<b>TOTAL NONCURRENT LIABILITIES</b>	<hr/> 43,497,817 <hr/>
<b>TOTAL LIABILITIES</b>	<hr/> 49,881,663 <hr/>
<b>NET ASSETS:</b>	
Invested in capital assets net of related debt	4,849,174
Unrestricted	2,212,540
<b>TOTAL NET ASSETS</b>	<hr/> 7,061,714 <hr/>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<hr/> \$ 56,943,377 <hr/>

**ALLEGAN PUBLIC SCHOOLS  
STATEMENT OF ACTIVITIES  
YEAR ENDED JUNE 30, 2005**

<b>Functions/programs</b>	<b>Expenses</b>	<b>Program revenues</b>		<b>Governmental activities</b>
		<b>Charges for services</b>	<b>Operating grants</b>	<b>Net (expense) revenue and changes in net assets</b>
Governmental activities:				
Instruction	\$ 13,216,408	\$	\$ 1,069,104	\$ (12,147,304)
Support services	7,954,582		44,449	(7,910,133)
Community services	204,568	52,312		(152,256)
Food services	853,534	348,038	442,479	(63,017)
Athletics	594,026	151,618		(442,408)
Interest on long-term debt	1,902,504			(1,902,504)
Unallocated depreciation	1,715,048			(1,715,048)
Total governmental activities	<u>\$ 26,440,670</u>	<u>\$ 551,968</u>	<u>\$ 1,556,032</u>	(24,332,670)
General revenues:				
Property taxes, levied for general purposes				2,893,406
Property taxes, levied for debt service				3,291,588
Investment earnings				63,420
State sources				16,978,327
Intermediate district sources				548,441
Other				357,322
Total general revenues				<u>24,132,504</u>
<b>CHANGE IN NET ASSETS</b>				(200,166)
<b>NET ASSETS</b> , beginning of year				<u>7,261,880</u>
<b>NET ASSETS</b> , end of year				<u>\$ 7,061,714</u>

ALLEGAN PUBLIC SCHOOLS  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2005

	General fund	Other nonmajor governmental funds	Total governmental funds
<b>ASSETS</b>			
<b>ASSETS:</b>			
Cash	\$ 237,146	\$ 283,226	\$ 520,372
Investments	2,557,261		2,557,261
Receivables:			
Due from other governmental units	3,269,784	6,259	3,276,043
Other	7,369	3,119	10,488
Due from other funds		316,236	316,236
Taxes	8,544	6,754	15,298
Inventories	34,047	9,664	43,711
<b>TOTAL ASSETS</b>	<b>\$ 6,114,151</b>	<b>\$ 625,258</b>	<b>\$ 6,739,409</b>
<b>LIABILITIES AND FUND BALANCES</b>			
<b>LIABILITIES:</b>			
Accounts payable	\$ 174,352	\$ 8,045	\$ 182,397
Accrued interest	14,523		14,523
Accrued salaries and related items	1,434,778		1,434,778
Deferred revenue	8,544	6,754	15,298
Due to other funds		316,236	316,236
Note payable	2,098,000		2,098,000
<b>TOTAL LIABILITIES</b>	<b>3,730,197</b>	<b>331,035</b>	<b>4,061,232</b>

	General fund	Other nonmajor governmental funds	Total governmental funds
<b>FUND BALANCES:</b>			
Reserved for:			
Debt service	\$	\$ 264,541	\$ 264,541
Inventories	34,047	9,664	43,711
Total reserved	34,047	274,205	308,252
Unreserved:			
Designated for subsequent year expenses	133,269		133,269
Undesignated	2,216,638	20,018	2,236,656
<b>TOTAL FUND BALANCES</b>	<b>2,383,954</b>	<b>294,223</b>	<b>2,678,177</b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 6,114,151</b>	<b>\$ 625,258</b>	<b>\$ 6,739,409</b>
<b>Total Governmental Fund Balances</b>			<b>\$ 2,678,177</b>

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and are not reported in the funds:	
The cost of the capital assets is	68,140,497
Accumulated depreciation is	(17,802,791)
Balance of taxes receivable at June 30, 2005 less allowance for doubtful accounts	15,298
Deferred bond issuance costs	182,498
Arbitrage	(235,979)
Accrued interest is not included as a liability in government funds, it is recorded when paid	(353,619)
Long-term liabilities are not due and payable in the current period and are not reported in the funds:	
Long-term debt	(45,943,035)
Deferred amount on bond refunding	1,293,359
Premium on debt	(785,375)
Compensated absences	(127,316)
<b>Net assets of governmental activities</b>	<b>\$ 7,061,714</b>

ALLEGAN PUBLIC SCHOOLS  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
YEAR ENDED JUNE 30, 2005

	General fund	Other nonmajor governmental funds	Total governmental funds
<b>REVENUES:</b>			
Local sources:			
Property taxes	\$ 2,893,715	\$ 3,296,506	\$ 6,190,221
Food service sales		348,038	348,038
Athletic admissions		151,618	151,618
Community services		52,312	52,312
Interest	53,189	10,231	63,420
Other	340,991	16,331	357,322
Total local sources	3,287,895	3,875,036	7,162,931
State sources	17,526,454	58,616	17,585,070
Federal sources	565,426	383,863	949,289
Incoming transfers and other transactions	548,441		548,441
Total revenues	21,928,216	4,317,515	26,245,731
<b>EXPENDITURES:</b>			
Current:			
Instruction	13,203,166		13,203,166
Supporting services	8,087,355		8,087,355
Food service activities		844,885	844,885
Athletic activities		554,937	554,937
Community services	127,509	74,735	202,244
Outgoing transfers and other	4,335		4,335
Debt service:			
Principal retirement		1,755,000	1,755,000
Interest and fiscal charges		1,762,866	1,762,866
Payment to refunded bond escrow agent		190,482	190,482
Bond issuance costs		182,498	182,498
Miscellaneous		5,911	5,911
Total expenditures	21,422,365	5,371,314	26,793,679
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<b>\$ 505,851</b>	<b>\$ (1,053,799)</b>	<b>\$ (547,948)</b>
<b>OTHER FINANCING SOURCES (USES):</b>			
Operating transfers in		464,816	464,816
Operating transfers (out)	(464,816)		(464,816)
Proceeds from school bond loan fund		203,987	203,987
Refunding bond proceeds		13,925,000	13,925,000
Bond premium		785,375	785,375
Payment to bond escrow agent		(14,527,877)	(14,527,877)
Total other financing sources (uses)	(464,816)	851,301	386,485
<b>NET CHANGE IN FUND BALANCES</b>	<b>41,035</b>	<b>(202,498)</b>	<b>(161,463)</b>
<b>FUND BALANCES, beginning of year</b>	<b>2,342,919</b>	<b>496,721</b>	<b>2,839,640</b>
<b>FUND BALANCES, end of year</b>	<b>\$ 2,383,954</b>	<b>\$ 294,223</b>	<b>\$ 2,678,177</b>



**ALLEGAN PUBLIC SCHOOLS**  
**RECONCILIATION OF THE STATEMENT OF REVENUES,**  
**EXPENDITURES AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS**  
**TO THE STATEMENT OF ACTIVITIES**  
**YEAR ENDED JUNE 30, 2005**

<b>Net change in fund balances total governmental funds</b>	\$ (161,463)
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Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures in the statement of activities. These costs are allocated over their estimated useful lives as depreciation.

Depreciation expense	(1,860,082)
Capital outlay	168,487

Accrued interest on bonds is recorded in the statement of activities when incurred; it is not recorded in governmental funds until it is paid:

Accrued interest payable beginning of the year	383,978
Accrued interest payable end of the year	(353,619)

Repayments of principal on long-term debt is an expenditure in the governmental funds, but not in the statement of activities (where it is a reduction of liabilities)

Principal repayment	15,230,152
Proceeds from debt refunding	(13,925,000)
Proceeds from school bond loan fund	(203,987)
Premium on debt	(785,375)
Deferred bond issuance costs	182,498
Deferred amount on bond refunding	1,293,359
Interest on school bond loan fund	(152,352)

Revenue is recorded on the accrual method in the statement of activities; in the governmental funds it is recorded on the modified accrual method and not considered available:

Deferred revenue beginning of the year	(20,525)
Deferred revenue end of the year	15,298

Compensated absences are reported on the accrual method in the statement of activities, and recorded as an expenditure when financial resources are used in the governmental funds:

Accrued compensated absences beginning of the year	128,484
Accrued compensated absences end of the year	(127,316)

Arbitrage beginning of year	223,276
Arbitrage end of year	(235,979)

<b>Change in net assets of governmental activities</b>	<b>\$ (200,166)</b>
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**ALLEGAN PUBLIC SCHOOLS**  
**STATEMENT OF FIDUCIARY NET ASSETS**  
**JUNE 30, 2005**

	<u>Agency</u>
<b>ASSETS</b>	
Cash	\$ 119,647
	<u>119,647</u>
<b>LIABILITIES AND FUND BALANCES</b>	
Liabilities:	
Accounts payable	\$ 1,217
Due to student groups	<u>118,430</u>
	<u>\$ 119,647</u>

## **ALLEGAN PUBLIC SCHOOLS NOTES TO FINANCIAL STATEMENTS**

### **NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The basic financial statements of the Allegan Public Schools have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the District's accounting policies are described below.

#### **A. Reporting Entity**

The Allegan Public Schools (the “District”) is governed by the Allegan Public Schools Board of Education (the “Board”), which has responsibility and control over all activities related to public school education within the District. The District receives funding from local, state, and federal government sources and must comply with all of the requirements of these funding source entities. However, the District is not included in any other governmental reporting entity as defined by the accounting principles generally accepted in the United States of America. Board members are elected by the public and have decision-making authority, the power to designate management, the ability to significantly influence operations, and the primary accountability for fiscal matters. In addition, the District’s reporting entity does not contain any component units as defined in Governmental Accounting Standards Board Statement No. 14 and 39.

#### **B. Government-wide and fund financial statements**

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. The government-wide financial statements categorize primary activities as either governmental or business type. All of the District’s activities are classified as governmental activities.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges paid by recipients who purchase, use or directly benefit from goods or services by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. State Foundation Aid, certain revenue from the intermediate school district and other unrestricted items are not included as program revenues but instead as *general revenues*.

In the government-wide statement of net assets, the governmental activities column (a) is presented on a consolidated basis, (b) and is reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The District’s net assets are reported in three parts – invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets.

The District first utilizes restricted resources to finance qualifying activities.

**ALLEGAN PUBLIC SCHOOLS  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**B. Government-wide and fund financial statements (Continued)**

The government-wide statement of activities reports both the gross and net cost of each of the District's functions. The functions are also supported by general government revenues (property taxes, certain intergovernmental revenues and other revenue). The statement of activities reduces gross expenses by related program revenues and operating grants. Program revenues must be directly associated with the function. Operating grants include operating-specific and discretionary grants.

The net costs (by function) are normally covered by general revenue (property taxes, state sources, intermediate district sources, interest income and other revenues.)

The District does not allocate indirect costs.

This government-wide focus is more on the sustainability of the District as an entity and the change in the District's net assets resulting from the current year's activities.

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

**Governmental Funds** – Governmental funds are those funds through which most school district functions typically are financed. The acquisition, use and balances of the school district's expendable financial resources and the related current liabilities are accounted for through governmental funds.

The District reports the following major governmental fund:

The *general fund* is the District's primary operating fund. It accounts for all financial resources of the District, except those required to be accounted for in another fund.

**ALLEGAN PUBLIC SCHOOLS  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Other Nonmajor Funds**

The *special revenue funds* account for revenue sources that are legally restricted to expenditures for specific purposes (not including expendable trusts or major capital projects). The District accounts for its food service, athletic activities and community services in the special revenue funds.

The *debt service funds* account for the resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds. At June 30, 2005, the 1998 debt service fund had a deficit of \$227,940.

**Fiduciary funds** account for assets held by the District in a trustee capacity or as an agent on behalf of others. Trust funds account for assets held by the District under the terms of a formal trust agreement. Fiduciary funds are not included in the government-wide statements.

The *agency fund* is custodial in nature and does not present results of operations or have a measurement focus. Agency funds are accounted for using the accrual basis of accounting. This fund is used to account for assets that the District holds for others in an agency capacity (primarily student activities).

**C. Measurement Focus, Basis of Accounting and Basis of Presentation**

**Accrual Method**

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

**ALLEGAN PUBLIC SCHOOLS  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**C. Measurement Focus, Basis of Accounting and Basis of Presentation (Concluded)**

**Modified Accrual Method**

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, state and federal aid and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the District.

**State Revenue**

The State of Michigan utilizes a foundation grant approach which provides for a specific annual amount of revenue per pupil based on a statewide formula. The Foundation is funded from state and local sources. Revenues from state sources are primarily governed by the School Aid Act and the School Code of Michigan. The Michigan Department of Education administers the allocation of state funds to school districts based on information supplied by the districts. For the year ended June 30, 2005, the foundation allowance was based on pupil membership counts taken in February and September of 2004.

The state portion of the foundation is provided primarily by a state education property tax millage of 6 mills and an allocated portion of state sales and other taxes. The local portion of the foundation is funded primarily by non-homestead property taxes which may be levied at a rate of up to 18 mills. The State revenue is recognized during the foundation period and is funded through payments from October 2004 to August 2005. Thus, the unpaid portion at June 30th is reported as due from other governmental units.

The District also receives revenue from the state to administer certain categorical education programs. State rules require that revenue earmarked for these programs be used for its specific purpose. Certain governmental funds require an accounting to the state of the expenditures incurred. For categorical funds meeting this requirement, funds received, which are not expended by the close of the fiscal year are recorded as deferred revenue. Other categorical funding is recognized when the appropriation is received.

**ALLEGAN PUBLIC SCHOOLS  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**D. Other Accounting Policies**

1. Cash and equivalents include amounts in demand deposits and certificates of deposit.

The District reports its investments in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools* and GASB Statement No. 40, *Deposits and Investment Risk Disclosures*. Under these standards, certain investments are valued at fair value as determined by quoted market prices, or by estimated fair values when quoted market prices are not available. The standards also provide that certain investments are valued at cost (or amortized cost) when they are of a short-term duration, the rate of return is fixed, and the district intends to hold the investment until maturity. Accordingly, investments in banker acceptances and commercial paper are recorded at amortized cost.

State statutes authorize the District to invest in bonds and other direct and certain indirect obligations of the U.S. Treasury; certificates of deposit, savings accounts, deposit accounts, or depository receipts of a bank, savings and loan association, or credit union, which is a member of the Federal Deposit Insurance Corporation, Federal Savings and Loan Insurance Corporation, or National Credit Union Administration, respectively; in commercial paper rated at the time of purchase within the three highest classifications established by not less than two standard rating services and which matures not more than 270 days after the date of purchase. The District is also authorized to invest in U.S. Government or federal agency obligation repurchase agreements, bankers' acceptances of U.S. banks, and mutual funds composed of investments as outlined above.

2. Property Taxes

Property taxes levied by the District are collected by various municipalities and periodically remitted to the District. The taxes are levied and become a lien as of July 1 and December 1 and are due upon receipt of the billing by the taxpayer and become a lien on the first day of the levy year. The actual due dates are September 14 and February 14, after which time the bills become delinquent and penalties and interest may be assessed by the collecting entity.

For the year ended June 30, 2005, the District levied the following amounts per \$1,000 of assessed valuation:

Fund	Mills
General Fund - Non-homestead	17.0169
Debt service fund - Homestead and non-homestead	7.5500

**ALLEGAN PUBLIC SCHOOLS  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**D. Other Accounting Policies (Continued)**

3. Inventories and Prepaid Expenditures

Inventories are valued at the lower of cost (first-in, first-out) or market. Inventories consisting of expendable supplies held for consumption, are recorded as expenditures when consumed rather than when purchased. Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid expenditures.

4. Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either “due to/from other funds” (i.e., the current portion of interfund loans) or “advances to/from other funds (i.e., the noncurrent portion of interfund loans). All other outstanding balances between funds are reported as “due to/from other funds).

All receivables, including property taxes receivable, are shown net of an allowance for uncollectibles.

5. Capital Assets

Capital assets purchased or acquired are capitalized at historical cost or estimated historical cost. Donated fixed assets are valued at their estimated fair market value on the date received.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related fixed assets.

Depreciation on all assets is provided on the straight-line basis over the estimated useful lives as follows:

Buildings and additions	50 years
Furniture and other equipment	5 – 20 years

The District’s capitalization policy is to capitalize individual amounts exceeding \$5,000.



**ALLEGAN PUBLIC SCHOOLS  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Concluded)**

**D. Other Accounting Policies (Concluded)**

6. Compensated Absences

The District's contracts generally provide for granting vacation or sick leave with pay. The current and long-term liability for compensated absences is reported on the government-wide financial statements. A liability for these amounts, including related benefits, is reported in governmental funds only if they have matured, for example, as a result of employee leave, resignations or retirements.

7. Long-term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities on the statement of net assets. Bond premiums and discounts, as well as issuance costs and the difference between the reacquisition price and the net carrying amount of the old debt, are deferred and amortized over the life of the bonds using the straight line method which approximates the effective interest method, over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

8. Use of Estimates

The process of preparing financial statements in conformity with accounting principles generally accepted in the United States of America requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues, and expenditures. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

**ALLEGAN PUBLIC SCHOOLS  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. Annual appropriated budgets are adopted for the general and special revenue funds.

The District follows these procedures in establishing the budgetary data reflected in the financial statements:

1. The Superintendent submits to the School Board a proposed operating budget for the fiscal year commencing on July 1. The operating budget includes proposed expenditures and the means of financing them. The level of control for the budgets is at the functional level as set forth and presented as required supplementary information.
2. Public hearings are conducted to obtain taxpayer comments.
3. Prior to July 1, the budget is legally adopted by School Board resolution pursuant to the Uniform Budgeting and Accounting Act (P.A. 621 of 1978). The Act requires that the budget be amended prior to the end of the fiscal year when necessary to adjust appropriations if it appears that revenues and other financing sources will be less than anticipated or so that expenditures will not be in excess of original estimates. Expenditures shall not be made or incurred, unless authorized in the budget, in excess of the amount appropriated. Violations, if any, for the general fund are noted in the required supplementary information section.
4. The Superintendent is authorized to transfer budgeted amounts between major expenditure functions within any fund; however, these transfers and any revisions that alter the total expenditures of any fund must be approved by the School Board.
5. Formal budgetary integration is employed as a management control device during the year for the general and special revenue funds.
6. The budget was amended during the year with supplemental appropriations, the last one approved prior to June 30, 2005. The District does not consider these amendments to be significant.

**ALLEGAN PUBLIC SCHOOLS  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 3 - DEPOSITS AND INVESTMENTS - CREDIT RISK**

As of June 30, 2005, the District had the following investments.

<b>Investment Type</b>	<b>Fair value</b>	<b>Weighted average maturity (years)</b>	<b>Standard &amp; Poor's Rating</b>	<b>%</b>
MILAF External Investment pool - MICMS	\$ 2,221	0.0027	AAAm	0.1%
MILAF External Investment pool -MIMAX	728,958	0.0027	AAAm	28.5%
Guaranteed Investment Contract (GIC)	<u>1,826,082</u>	0.0575	A1+	<u>71.4%</u>
Total fair value	<u><u>\$ 2,557,261</u></u>			<u><u>100.0%</u></u>
Portfolio weighted average maturity		<u><u>0.0418</u></u>		

1 day maturity equals 0.0027, one year equals 1.00

The District voluntarily invests certain excess funds in external pooled investment funds, which included money market funds. One of the pooled investment funds utilized by the District is the Michigan Investment Liquid Asset Fund (MILAF). MILAF is an external pooled investment fund of “qualified” investments for Michigan school districts. MILAF is not regulated nor is it registered with the SEC. MILAF reports as of June 30, 2005, the fair value of the District’s investments is the same as the value of the pool shares.

**Interest rate risk.** In accordance with its investment policy, the District will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by; structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market; and, investing operating funds primarily in shorter-term securities, liquid asset funds, money market mutual funds, or similar investment pools and limiting the average maturity in accordance with the District’s cash requirements.

**Credit risk.** State law limits investments in commercial paper and corporate bonds to a prime or better rating issued by nationally recognized statistical rating organizations (NRSROs).

**Concentration of credit risk.** The District will minimize concentration of credit risk, which is the risk of loss attributed to the magnitude of the District’s investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

**ALLEGAN PUBLIC SCHOOLS  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 3 - DEPOSITS AND INVESTMENTS - CREDIT RISK (Continued)**

**Custodial credit risk - deposits.** In the case of deposits, this is the risk that in the event of a bank failure, the District's deposits may not be returned to it. As of June 30, 2005, \$540,019 of the District's bank balance of \$640,019 was exposed to custodial credit risk because it was uninsured and uncollateralized.

**Custodial credit risk - investments.** For an investment, this is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party

The District will minimize custodial credit risk, which is the risk of loss due to the failure of the security issuer or backer, by; limiting investments to the types of securities allowed by law; and pre-qualifying the financial institutions, broker/dealers, intermediaries and advisors with which the District will do business.

The District's Guaranteed Investment Contract is collateralized and invested for the purpose of paying off the Note Payable disclosed in Note 6.

The Investment Agreement, dated as of August 20, 2004, by and among J.P.Morgan Trust Company, National Association, as the Depository on behalf of both the participating Michigan School Districts and the Michigan Municipal Bond Authority, and Citigroup Global Markets, Inc., as Provider.

The net proceeds from the sale of the Series B-1 Notes were loaned by the Authority to Michigan School Districts. Such loans were repaid with monthly set-a-side installments deposited with the Depository for investment under the Investment Agreement. Set-a-side installments are deposited under the Investment Agreement versus Permitted Investments (collateral securities) equaling at least 103% of the deposited amount and such Permitted Investments are held by the Depository in a fiduciary capacity.

The Guaranteed Rate under this Investment Agreement (commonly referred to as guaranteed investment contract-GIC or collateralized investment agreement-CIA) is 2.59% (simple interest actual days elapsed over a 365-day year).

The Guarantor is Citigroup Global Markets Holdings, Inc., as guarantor of the Provider's obligations under this Investment Agreement.

**Foreign currency risk.** The District is not authorized to invest in investments, which have this type of risk.

**ALLEGAN PUBLIC SCHOOLS  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 3 - DEPOSITS AND INVESTMENTS - CREDIT RISK (Concluded)**

The above amounts as previously reported in Note 3:

Deposits - including fiduciary funds of \$119,647	\$ 640,019
Investments	<u>2,557,261</u>
	<u><u>\$ 3,197,280</u></u>

The above amounts are reported in the financial statements as follows:

Cash Agency Fund	\$ 119,647
Cash - District wide	520,372
Investments - District wide	<u>2,557,261</u>
	<u><u>\$ 3,197,280</u></u>

**NOTE 4 – RECEIVABLES**

Receivables from governmental units at June 30, 2005 consist of the following:

	<u>General fund</u>
Other governmental units:	
State aid	\$ 3,185,785
Federal revenue	17,310
Other	<u>72,948</u>
	<u><u>\$ 3,276,043</u></u>

No allowance for doubtful accounts is considered necessary.

**ALLEGAN PUBLIC SCHOOLS  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 5 – CAPITAL ASSETS**

A summary of changes in the District's capital assets follows:

	Balance July 1, 2004	Additions	Deletions	Balance June 30, 2005
Assets not being depreciated - land	\$ 178,900	\$	\$	\$ 178,900
Other capital assets:				
Buildings and additions	58,652,171	59,999		58,712,170
Technology	1,842,688			1,842,688
Athletic equipment	808,458			808,458
General equipment	4,910,100			4,910,100
Transportation equipment	1,625,094	108,488	(45,401)	1,688,181
				-
Subtotal	67,838,511	168,487	(45,401)	67,961,597
				-
Accumulated depreciation:				
Buildings and additions	10,065,623	1,375,465		11,441,088
Technology	1,437,672	103,571		1,541,243
Athletic equipment	339,608	39,089		378,697
General equipment	2,934,485	246,716		3,181,201
Transportation equipment	1,210,722	95,241	(45,401)	1,260,562
Total accumulated depreciation	15,988,110	1,860,082	(45,401)	17,802,791
Net other capital assets	51,850,401	(1,691,595)		50,158,806
Net capital assets	<u>\$ 52,029,301</u>	<u>\$ (1,691,595)</u>	<u>\$</u>	<u>\$ 50,337,706</u>

Depreciation expense was charged to programs of the primary government as follows:

Governmental activities:	
Athletics	\$ 39,089
Food services	8,649
Support services	97,296
Unallocated	<u>1,715,048</u>
	<u>\$ 1,860,082</u>

**ALLEGAN PUBLIC SCHOOLS  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 6 - NOTE PAYABLE**

At June 30, 2005 the District has outstanding a \$2,098,000 revenue note (state aid note) dated August 20, 2004. The note, which has an interest rate of 1.55%, matures August 21, 2005. The District has \$1,826,082 of funds on deposit with a financial institution, which are included in investments on the general fund balance sheet, to be applied against the \$2,098,000 note. The note is secured by the full faith and credit of the District as well as pledged state aid. Subsequent to year-end the District set aside an additional amount to pay off the note principal and related interest expense.

Balance June 30, 2004	Additions	Payments	Balance June 30, 2005
<u>\$ 2,500,000</u>	<u>\$ 2,098,000</u>	<u>\$ 2,500,000</u>	<u>\$ 2,098,000</u>

**ALLEGAN PUBLIC SCHOOLS  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 7 - LONG-TERM DEBT**

The District issues general obligations bonds and Michigan Municipal Bond Authority bonds and notes to provide funds for the acquisition, construction and improvement of major capital facilities, as well as, the purchase of equipment. These bonds and notes are direct obligations and pledge the full faith and credit of the District. Long-term debt is as follows:

\$17,280,000 - 1996 general bond issue (non refunded portion) due in annual installments of \$625,000 to \$635,000 through May 1, 2007; interest at 6.50%	\$ 1,260,000
\$25,290,000 - 1998 refunding bonds due in annual installments of \$750,000 to \$1,670,000 through May 1, 2022; interest from 4.25% to 5.10%	22,680,000
\$17,890,000 - 2000 general obligation bond issue (non-refunded portion) due in annual installments of \$450,000 to \$475,000 through May 1, 2010; interest from 4.75% to 6.00%	2,300,000
\$13,925,000 - 2005 refunding bonds due in annual installments of \$55,000 to \$740,000 through May 1, 2030; interest from 3.00% to 5.00%	13,925,000
Plus: premium on bond refunding	785,375
Less: deferred amount on bond refunding	<u>(1,293,359)</u>
	39,657,016
 \$463,213 - School Improvement Bonds Limited Obligation Bonds (Durant) due in annual installments of \$23,483 to \$106,079 through May 15, 2013; interest at 4.76%. Certain State Aid payments have been pledged as security.	 <u>295,931</u>
Total bonded debt	39,952,947
Demand promissory note	<u>100,304</u>
	40,053,251
 Borrowings from the State of Michigan under the School Bond Loan Fund, including interest	 5,381,800
Arbitrage	235,979
Compensated absences	<u>127,316</u>
Total general long-term debt	<u><u>\$ 45,798,346</u></u>



**ALLEGAN PUBLIC SCHOOLS**  
**NOTES TO FINANCIAL STATEMENTS**

**NOTE 7 - LONG-TERM DEBT (Continued)**

The annual requirements to amortize long-term debt outstanding excluding compensated absences and school bond loan fund borrowings as of June 30, 2005, including interest of \$20,963,178 are as follows:

Year ending June 30,	Principal	Interest	Total
2006	\$ 2,036,231	\$ 2,085,266	\$ 4,121,497
2007	2,008,635	1,858,363	3,866,998
2008	2,044,607	1,756,737	3,801,344
2009	2,140,779	1,664,000	3,804,779
2010	2,232,006	1,563,746	3,795,752
2011-2015	11,148,977	6,249,114	17,398,091
2016-2020	9,845,000	3,623,202	13,468,202
2021-2025	5,405,000	1,607,750	7,012,750
2026-2030	3,700,000	555,000	4,255,000
	<u>\$ 40,561,235</u>	<u>\$ 20,963,178</u>	<u>61,524,413</u>
Premium on bond refunding			785,375
Deferred charge on bond refunding			(1,293,359)
Borrowings from the State of Michigan under the School Bond Loan Fund, including interest			5,381,800
Arbitrage			235,979
Compensated absences			<u>127,316</u>
Total long-term debt including interest			<u>\$ 66,761,524</u>

\$264,541 of funds are available in the debt service funds to service the general obligation debt.

**ALLEGAN PUBLIC SCHOOLS  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 7 - LONG-TERM DEBT (Concluded)**

The following is a summary of long-term debt transactions of the District for the year ended June 30, 2005:

	Compensated absences	Arbitrage	Bonds and other debt	Total
Balance July 1, 2004	\$ 128,484	\$ 223,276	\$ 46,891,848	\$ 47,243,608
Additions		12,703	15,066,714	15,079,417
Deletions	(1,168)		(16,523,511)	(16,524,679)
Balance June 30, 2005	127,316	235,979	45,435,051	45,798,346
Less current portion	(8,000)		(2,056,550)	(2,064,550)
Total due after one year	<u>\$ 119,316</u>	<u>\$ 235,979</u>	<u>\$ 43,378,501</u>	<u>\$ 43,733,796</u>

Interest expense (all funds) for the year ended June 30, 2005 was approximately \$1,800,000.

On March 11, 2005, Allegan Public School District issued general obligation bonds of \$13,925,000 with an interest rate ranging from 3.00% to 5.00% to advance refund school building and site bonds with an interest rate ranging from 5.00% to 5.75%. The school building and site bonds mature on May 1, 2030. The general obligation bonds were issued at a premium after paying issuance costs of \$182,498, the net proceeds were \$14,710,375. The net proceeds from the issuance of the general obligation bonds were used to purchase U.S. government securities and those securities were deposited in an irrevocable trust with an escrow agent to provide debt service payments until the school building and site bonds are called on May 1, 2010. The advance refunding met the requirements of an in-substance debt defeasance and the term bonds were removed from the District's government-wide financial statements.

As a result of the advance refunding, the District reduced its total debt service requirements by \$1,378,834, which resulted in an economic gain (difference between the present value of the debt service payments on the old and new debt) of \$898,481.

In prior years, the District defeased certain general obligation bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account, assets and liabilities for the defeased bonds are not included in the District's financial statements. At June 30, 2005, \$35,250,000 of bonds outstanding are considered defeased.

**ALLEGAN PUBLIC SCHOOLS  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 8 - EMPLOYEE RETIREMENT SYSTEM - DEFINED BENEFIT PLAN**

Plan Description - The District contributes to the statewide Michigan Public School Employees' Retirement System (MPERS), a cost sharing multiple-employer defined benefit pension plan administered by the board of the MPERS. The MPERS provides retirement benefits and postretirement benefits for health, dental and vision. The MPERS was established by Public Act 136 of 1945 and operated under the provisions of Public Act 300 of 1980, as amended. The MPERS issues a publicly available financial report that includes financial statements and required supplementary information for MPERS. That report may be obtained by writing to Michigan Public School Employees Retirement System, P.O. Box 30026, Lansing, Michigan 48909 or by calling (517) 322-6000.

Funding Policy - Member Investment Plan (MIP) members enrolled in MIP prior to January 1, 1990 contribute a permanently fixed rate of 3.9% of gross wages. The MIP contribution rate was 4.0% from January 1, 1987, the effective date of the MIP, until January 1, 1990 when it was reduced to 3.9%. Members first hired January 1, 1990 or later and returning members who did not work between January 1, 1987 through December 31, 1989 contribute at the following graduated permanently fixed contribution rate: 3% of the first \$5,000; 3.6% of \$5,001 through \$15,000; 4.3% of all wages over \$15,000.

Basic Plan members make no contributions. For a limited period ending December 31, 1992, an active Basic Plan member could enroll in the MIP by paying the contributions that would have been made had enrollment occurred initially on January 1, 1987 or on the date of hire, plus interest. MIP contributions at the rate of 3.9% of gross wages begin at enrollment. Market rate interest is posted to member accounts on July 1st on all MIP monies on deposit for 12 months. If a member leaves MPERS service and no pension is payable, the member's accumulated contribution plus interest, if any, are refundable.

The District is required to contribute the full actuarial funding contribution amount to fund pension benefits, plus an additional amount to fund retiree health care benefit amounts on a cash disbursement basis. The rate for the year ended June 30, 2005 was 12.99% until September 30, 2004 and 14.87% effective October 1, 2004 of payroll. The contribution requirements of plan members and the District are established and may be amended by the MPERS Board of Trustees. The District contributions to MPERS for the year ended June 30, 2005, 2004, and 2003 were \$1,860,000, \$1,760,000, and \$1,770,000, respectively, and were equal to the required contribution for those years.

The District is not responsible for the payment of retirement benefits, which is the responsibility of the State of Michigan.

Other Post-employment Benefits

Under the MPERS Act, all retirees have the option of continuing health, dental and vision coverage.

**ALLEGAN PUBLIC SCHOOLS  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 9 - INTERFUND RECEIVABLES AND PAYABLES**

Interfund payable and receivable balances at June 30, 2005 are as follows:

Receivable Fund		Payable Fund	
Debt Service	<u>\$ 316,236</u>	Debt Service	<u>\$ 316,236</u>

The outstanding balances between funds result mainly from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting systems, and (3) payments between funds are made.

**NOTE 10 - RISK MANAGEMENT**

The District is exposed to various risk of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. The District participates in a pool of educational institutions within the State of Michigan for self-insuring workers' disability compensation. The pool is considered a public entity risk pool. The District pays annual premiums to the pool for insurance coverage. In the event the pool's total claims and expenses for a policy year exceed the total normal annual premiums for said years, all members of the specific pool's policy year may be subject to special assessment to make up the deficiency. The pool maintains reinsurance for claims in excess of \$500,000 for each occurrence with the overall maximum coverage being unlimited. The District has not been informed of any special assessments being required.

The District continues to carry commercial insurance for other risks of loss, including employee health and accident insurance. No settlements have occurred in excess of coverage for June 30, 2005 or any of the prior three years.

The District is self insured for dental coverage. The current year expense for June 30, 2005 was approximately \$188,000. Any liability for incurred and unreported claims is considered immaterial.

**NOTE 11 - TRANSFERS**

The general fund transferred \$49,164 to the school lunch fund, \$404,244 to the athletic fund, and \$11,408 to the community services fund. The transfers were to subsidize operations in these funds.

## **REQUIRED SUPPLEMENTARY INFORMATION**

**ALLEGAN PUBLIC SCHOOLS  
REQUIRED SUPPLEMENTARY INFORMATION  
BUDGETARY COMPARISON SCHEDULE  
GENERAL FUND  
YEAR ENDED JUNE 30, 2005**

	<b>Original budget</b>	<b>Final budget</b>	<b>Actual</b>	<b>Variance with final budget- positive (negative)</b>
<b>REVENUES:</b>				
Local	\$ 3,150,468	\$ 3,312,934	\$ 3,287,895	\$ (25,039)
State sources	17,284,846	17,391,089	17,526,454	135,365
Federal sources	712,563	624,419	565,426	(58,993)
Incoming transfers and other transactions	284,692	445,807	548,441	102,634
Total revenues	21,432,569	21,774,249	21,928,216	153,967
<b>EXPENDITURES:</b>				
Current:				
Instruction:				
Basic programs	10,589,440	10,165,195	10,177,452	(12,257)
Added needs	2,923,905	3,044,901	2,980,905	63,996
Adult and community education	79,635	46,508	44,809	1,699
Total instruction	13,592,980	13,256,604	13,203,166	53,438
Support services:				
Pupil	1,709,979	1,565,843	1,583,081	(17,238)
Instructional staff	559,978	423,814	414,892	8,922
General administration	509,630	524,018	532,996	(8,978)
School administration	1,415,131	1,397,246	1,376,709	20,537
Business	317,709	309,408	341,190	(31,782)
Operation and maintenance	2,872,380	2,633,127	2,479,676	153,451
Transportation	1,012,879	1,175,180	1,159,931	15,249
Central service	260,261	194,996	198,880	(3,884)
Total support services	8,657,947	8,223,632	8,087,355	136,277
Community services	79,635	136,392	127,509	8,883
Outgoing transfers and other	7,500	7,500	4,335	3,165
Total expenditures	22,338,062	21,624,128	21,422,365	201,763
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	(905,493)	150,121	505,851	355,730
<b>OTHER FINANCING USES:</b>				
Operating transfers out	(592,614)	(451,487)	(464,816)	(13,329)
<b>NET CHANGE IN FUND BALANCE</b>	<u>\$ (1,498,107)</u>	<u>\$ (301,366)</u>	41,035	<u>\$ 342,401</u>
<b>FUND BALANCES:</b>				
Beginning of year			2,342,919	
End of year			<u>\$ 2,383,954</u>	

## **ADDITIONAL INFORMATION**

**ALLEGAN PUBLIC SCHOOLS  
COMBINING BALANCE SHEET  
NONMAJOR GOVERNMENTAL FUND TYPES  
JUNE 30, 2005**

	<b>Special revenue</b>	<b>Debt service</b>	<b>Total nonmajor governmental funds</b>
<b>ASSETS</b>			
<b>ASSETS:</b>			
Cash	\$ 18,685	\$ 264,541	\$ 283,226
Receivables:			
Due from other governmental units	6,259		6,259
Other	3,119		3,119
Due from other funds		316,236	316,236
Taxes		6,754	6,754
Inventories	9,664		9,664
<b>TOTAL ASSETS</b>	<b>\$ 37,727</b>	<b>\$ 587,531</b>	<b>\$ 625,258</b>
<b>LIABILITIES AND FUND BALANCES</b>			
<b>LIABILITIES:</b>			
Accounts payable	\$ 8,045	\$	\$ 8,045
Deferred revenue		6,754	6,754
Due to other funds		316,236	316,236
<b>TOTAL LIABILITIES</b>	<b>8,045</b>	<b>322,990</b>	<b>331,035</b>
<b>FUND BALANCES:</b>			
Reserved for:			
Debt service		264,541	264,541
Inventories	9,664		9,664
Total reserved	9,664	264,541	274,205
Unreserved:			
Undesignated	20,018		20,018
<b>TOTAL FUND BALANCES</b>	<b>29,682</b>	<b>264,541</b>	<b>294,223</b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 37,727</b>	<b>\$ 587,531</b>	<b>\$ 625,258</b>



**ALLEGAN PUBLIC SCHOOLS**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES**  
**AND CHANGES IN FUND BALANCES**  
**NONMAJOR GOVERNMENTAL FUND TYPES**  
**YEAR ENDED JUNE 30, 2005**

	<b>Special revenue</b>	<b>Debt service</b>	<b>Total nonmajor governmental funds</b>
<b>REVENUES:</b>			
Local sources:			
Property taxes	\$	\$ 3,296,506	\$ 3,296,506
Food service sales	348,038		348,038
Athletic admissions	151,618		151,618
Community services	52,312		52,312
Interest	1,384	8,847	10,231
Other local revenue	5,405	10,926	16,331
Total local sources	558,757	3,316,279	3,875,036
State sources	58,616		58,616
Federal sources	383,863		383,863
Total revenues	1,001,236	3,316,279	4,317,515
<b>EXPENDITURES:</b>			
Current:			
Food service activities	844,885		844,885
Athletic activities	554,937		554,937
Community services	74,735		74,735
Debt service:			
Principal retirement		1,755,000	1,755,000
Interest and fiscal charges		1,762,866	1,762,866
Payment to refunded bond escrow agent		190,482	190,482
Bond issuance costs		182,498	182,498
Miscellaneous		5,911	5,911
Total expenditures	1,474,557	3,896,757	5,371,314
<b>DEFICIENCY OF REVENUES OVER EXPENDITURES</b>	(473,321)	(580,478)	(1,053,799)
<b>OTHER FINANCING SOURCES (USES):</b>			
Operating transfers in	464,816		464,816
Proceeds from school bond loan fund		203,987	203,987
Refunding bond proceeds		13,925,000	13,925,000
Bond premium		785,375	785,375
Payment to bond escrow agent		(14,527,877)	(14,527,877)
Total other financing sources	464,816	386,485	851,301
<b>NET CHANGE IN FUND BALANCES (DEFICIT)</b>	(8,505)	(193,993)	(202,498)
<b>FUND BALANCES, beginning of year</b>	38,187	458,534	496,721
<b>FUND BALANCES, end of year</b>	\$ 29,682	\$ 264,541	\$ 294,223

**ALLEGAN PUBLIC SCHOOLS  
SPECIAL REVENUE FUNDS  
COMBINING BALANCE SHEET  
JUNE 30, 2005**

	<b>School lunch fund</b>	<b>Athletic fund</b>	<b>Community services fund</b>	<b>Total</b>
<b>ASSETS</b>				
Cash	\$ 858	\$ 2,005	\$ 15,822	\$ 18,685
Receivables:				
Due from other governmental units	6,259			6,259
Other	3,119			3,119
Inventories	9,664			9,664
<b>TOTAL ASSETS</b>	<u><u>\$ 19,900</u></u>	<u><u>\$ 2,005</u></u>	<u><u>\$ 15,822</u></u>	<u><u>\$ 37,727</u></u>
<b>LIABILITIES AND FUND BALANCES</b>				
Liabilities:				
Accounts payable	\$ 5,930	\$ 1,015	\$ 1,100	\$ 8,045
Fund balances:				
Reserved:				
Inventories	9,664			9,664
Unreserved:				
Undesignated	4,306	990	14,722	20,018
Total fund balances	13,970	990	14,722	29,682
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<u><u>\$ 19,900</u></u>	<u><u>\$ 2,005</u></u>	<u><u>\$ 15,822</u></u>	<u><u>\$ 37,727</u></u>

**ALLEGAN PUBLIC SCHOOLS  
SPECIAL REVENUE FUNDS  
COMBINING STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES  
YEAR ENDED JUNE 30, 2005**

	<b>School lunch fund</b>	<b>Athletic fund</b>	<b>Community services fund</b>	<b>Total</b>
<b>REVENUES:</b>				
Local sources:				
Food service sales	\$ 348,038	\$	\$	\$ 348,038
Athletic admissions		151,618		151,618
Interest	906	310	168	1,384
Community services and tuition			52,312	52,312
Other local revenue			5,405	5,405
State aid	58,616			58,616
Federal aid	383,863			383,863
	<hr/>	<hr/>	<hr/>	<hr/>
Total revenues	791,423	151,928	57,885	1,001,236
	<hr/>	<hr/>	<hr/>	<hr/>
<b>EXPENDITURES:</b>				
Salaries and wages	203,762	314,863	53,207	571,832
Employee benefits	160,953	93,451	13,648	268,052
Supplies and materials	61,592	16,788	1,017	79,397
Purchased services	1,242	74,024	2,995	78,261
Management fees	81,817			81,817
Other	2,271	11,397	3,868	17,536
Food costs	327,285			327,285
Operations and maintenance	5,963	44,414		50,377
	<hr/>	<hr/>	<hr/>	<hr/>
Total expenditures	844,885	554,937	74,735	1,474,557
	<hr/>	<hr/>	<hr/>	<hr/>
<b>DEFICIENCY OF REVENUES OVER EXPENDITURES</b>	(53,462)	(403,009)	(16,850)	(473,321)
	<hr/>	<hr/>	<hr/>	<hr/>
<b>OTHER FINANCING SOURCES:</b>				
Operating transfer in from general fund	49,164	404,244	11,408	464,816
	<hr/>	<hr/>	<hr/>	<hr/>
<b>NET CHANGE IN FUND BALANCES (DEFICIT)</b>	(4,298)	1,235	(5,442)	(8,505)
	<hr/>	<hr/>	<hr/>	<hr/>
<b>FUND BALANCES (DEFICIT), beginning of year</b>	18,268	(245)	20,164	38,187
	<hr/>	<hr/>	<hr/>	<hr/>
<b>FUND BALANCES, end of year</b>	\$ 13,970	\$ 990	\$ 14,722	\$ 29,682
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

**ALLEGAN PUBLIC SCHOOLS  
DEBT SERVICE FUNDS  
COMBINING BALANCE SHEET  
JUNE 30, 2005**

	<u>1996</u>	<u>1998</u>	<u>2000</u>	<u>Total</u>
<b>ASSETS</b>				
Cash	\$ 18,742	\$ 52,004	\$ 193,795	\$ 264,541
Receivables:				
Taxes	1,163	3,226	2,365	6,754
Due from other funds	316,236			316,236
<b>TOTAL ASSETS</b>	<u>\$ 336,141</u>	<u>\$ 55,230</u>	<u>\$ 196,160</u>	<u>\$ 587,531</u>
<b>LIABILITIES AND FUND BALANCES</b>				
Liabilities:				
Deferred revenue	\$ 1,163	\$ 3,226	\$ 2,365	\$ 6,754
Due to other fund		279,944	36,292	316,236
Total liabilities	1,163	283,170	38,657	322,990
Fund balances (deficit):				
Reserved for debt service	334,978	(227,940)	157,503	264,541
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<u>\$ 336,141</u>	<u>\$ 55,230</u>	<u>\$ 196,160</u>	<u>\$ 587,531</u>

**ALLEGAN PUBLIC SCHOOLS  
DEBT SERVICE FUNDS  
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCES  
YEAR ENDED JUNE 30, 2005**

	<b>1996</b>	<b>1998</b>	<b>2000</b>	<b>2005</b>	<b>Total</b>
<b>REVENUES:</b>					
Property taxes	\$ 567,391	\$ 1,574,333	\$ 1,154,782	\$	\$ 3,296,506
Interest on investments	1,523	4,225	3,099		8,847
Miscellaneous			10,926		10,926
Total revenues	568,914	1,578,558	1,168,807		3,316,279
<b>EXPENDITURES:</b>					
Principal retirement	575,000	730,000	450,000		1,755,000
Interest on bonded debt	119,275	1,125,788	517,803		1,762,866
Payment to refunded bond escrow agent			190,482		190,482
Bond issuance costs				182,498	182,498
Miscellaneous	1,017	2,823	2,071		5,911
Total expenditures	695,292	1,858,611	1,160,356	182,498	3,896,757
<b>EXCESS (DEFICIENCY) OF REVENUES UNDER EXPENDITURES</b>	(126,378)	(280,053)	8,451	(182,498)	(580,478)
<b>OTHER FINANCING SOURCES (USES):</b>					
Proceeds from school loan fund	35,110	97,419	71,458		203,987
Refunding bond proceeds				13,925,000	13,925,000
Bond premium				785,375	785,375
Payment to bond escrow agent				(14,527,877)	(14,527,877)
Total other financing sources (uses)	35,110	97,419	71,458	182,498	386,485
<b>NET CHANGE IN FUND BALANCES</b>	(91,268)	(182,634)	79,909		(193,993)
<b>FUND BALANCES (DEFICIT), beginning of year</b>	426,246	(45,306)	77,594		458,534
<b>FUND BALANCES (DEFICIT), end of year</b>	\$ 334,978	\$ (227,940)	\$ 157,503	\$	\$ 264,541

**ALLEGAN PUBLIC SCHOOLS  
AGENCY FUNDS  
(INTERNAL FUNDS)  
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS  
AND LIABILITIES BY ACTIVITY  
YEAR ENDED JUNE 30, 2005**

	Balance July 1, 2004	Additions	Deductions	Balance June 30, 2005
Student council - West Ward	\$ 1,554	\$ 17,707	\$ 11,954	\$ 7,307
West Ward library	3	3,987	3,222	768
Student council - Dawson	7,275	14,705	18,898	3,082
Student council - North Ward	1,702	1,722	1,468	1,956
Student council - Pine Trails	2,478	15,084	11,630	5,932
Junior Hi-lights	1,164	7,474	7,105	1,533
Student council - Jr. High	11,392	28,906	27,834	12,464
Quiz bowl	460	1,688	993	1,155
AHS literary magazine	193	320		513
Spanish club - Sr. club	4,376	4,852	5,499	3,729
French club	1,108	7,861	8,322	647
Echo - Yearbook	3,527	23,320	24,004	2,843
Power club	2,164	43,185	43,153	2,196
Decca club	2,333	4,212	4,008	2,537
National Honor society	4,841	14,543	13,019	6,365
Michigan Youth in government	937	4,732	3,997	1,672
Fellowship	916	172	312	776
Student council - Sr. High	7,236	21,864	24,248	4,852
Senior high recycling	639	1,484	1,882	241
Library - Sr. High	229			229
Senior high band	383	101	200	284
School store - Orange Karate	9,286	14,605	14,765	9,126
Dramatics - Sr. High	12,682	7,539	13,131	7,090
SADD - AHS chapter	618	826	913	531
Class of 1995	2,551	6		2,557
Class of 1997	791	2		793
Class of 1999	1,391	3		1,394
Class of 2001	382	1		383
Class of 2002	131			131
Class of 2003	3,451	7		3,458

**ALLEGAN PUBLIC SCHOOLS  
AGENCY FUNDS  
(INTERNAL FUNDS)  
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS  
AND LIABILITIES BY ACTIVITY  
YEAR ENDED JUNE 30, 2005**

	Balance July 1, 2004	Additions	Deductions	Balance June 30, 2005
Class of 2004	\$ 4,261	\$ 8	\$ 354	\$ 3,915
Class of 2005	3,201	1,126	3,573	754
Class of 2006	3,278	6,058	4,728	4,608
Class of 2007	2,868	732	2,785	815
Class of 2008	1,000	1,903	1,774	1,129
Class of 2009	500	1		501
Swim Club	3,196	11,448	6,996	7,648
Student council - Southward	5,923	9,839	7,910	7,852
Horticulture	1,057	2,495	943	2,609
Video production	1,463	1,835	1,243	2,055
	<u>\$ 112,940</u>	<u>\$ 276,353</u>	<u>\$ 270,863</u>	<u>\$ 118,430</u>

**ALLEGAN PUBLIC SCHOOLS  
BONDED DEBT  
JUNE 30, 2005**

\$17,280,000 Bonds issued August 13, 1996:

Principal due May 1,	Interest due		Debt service requirement for fiscal year	
	November 1,	May 1,	June 30,	Amount
\$ 625,000	\$ 40,950	\$ 40,950	2006	\$ 706,900
635,000	20,638	20,637	2007	676,275
<u>\$ 1,260,000</u>	<u>\$ 61,588</u>	<u>\$ 61,587</u>		<u>\$ 1,383,175</u>

The above bond issue bears interest at 6.5%. The bond proceeds were used for the construction, remodeling, purchase and improvement of school facilities and sites.



**ALLEGAN PUBLIC SCHOOLS  
BONDED DEBT  
JUNE 30, 2005**

\$25,290,000 Refunding Bonds issued March 11, 1998:

Principal due May 1,	Interest due		Debt service requirement for fiscal year	
	November 1,	May1,	June 30,	Amount
\$ 750,000	\$ 547,381	\$ 547,381	2006	\$ 1,844,762
795,000	531,256	531,256	2007	1,857,512
1,515,000	513,965	513,965	2008	2,542,930
1,580,000	480,256	480,256	2009	2,540,512
1,670,000	444,706	444,706	2010	2,559,412
1,655,000	406,296	406,296	2011	2,467,592
1,645,000	367,404	367,404	2012	2,379,808
1,635,000	327,513	327,513	2013	2,290,026
1,625,000	287,455	287,455	2014	2,199,910
1,615,000	247,236	247,236	2015	2,109,472
1,605,000	206,861	206,861	2016	2,018,722
1,590,000	166,335	166,335	2017	1,922,670
1,580,000	125,790	125,790	2018	1,831,580
845,000	85,500	85,500	2019	1,016,000
865,000	64,375	64,375	2020	993,750
860,000	42,750	42,750	2021	945,500
850,000	21,250	21,250	2022	892,500
<u>\$ 22,680,000</u>	<u>\$ 4,866,329</u>	<u>\$ 4,866,329</u>		<u>\$ 32,412,658</u>

The above bond issue bears interest at rates ranging from 4.25% to 5.10%. The bond proceeds were used to refund the 1992 and 1996 bond issues.

**ALLEGAN PUBLIC SCHOOLS  
BONDED DEBT  
JUNE 30, 2005**

\$17,890,000 Bonds issued August 10, 2000:

Principal due May 1,	Interest due		Debt service requirement for fiscal year	
	November 1,	May 1,	June 30,	Amount
\$ 450,000	\$ 60,500	\$ 60,500	2006	\$ 571,000
450,000	49,250	49,250	2007	548,500
450,000	38,562	38,562	2008	527,124
475,000	27,313	27,313	2009	529,626
475,000	14,250	14,250	2010	503,500
<u>\$ 2,300,000</u>	<u>\$ 189,875</u>	<u>\$ 189,875</u>		<u>\$ 2,679,750</u>

The above bond issue bears interest at rates ranging from 4.75% to 6.00%. The bond proceeds were used for construction of a new auditorium and pool.

**ALLEGAN PUBLIC SCHOOLS  
BONDED DEBT  
JUNE 30, 2005**

\$13,925,000 Refunding Bonds issued March 11, 2005

Principal due May 1,	Interest due		Debt service requirement for fiscal year	
	November 1,	May1,	June 30,	Amount
\$ 55,000	\$ 413,401	\$ 323,531	2006	\$ 791,932
55,000	322,706	322,706	2007	700,412
55,000	321,881	321,881	2008	698,762
60,000	321,056	321,056	2009	702,112
60,000	320,156	320,156	2010	700,312
535,000	319,256	319,256	2011	1,173,512
555,000	308,556	308,556	2012	1,172,112
580,000	296,763	296,763	2013	1,173,526
600,000	285,888	285,888	2014	1,171,776
615,000	273,888	273,888	2015	1,162,776
635,000	261,588	261,588	2016	1,158,176
655,000	245,713	245,713	2017	1,146,426
670,000	232,940	232,940	2018	1,135,880
690,000	219,875	219,875	2019	1,129,750
710,000	202,625	202,625	2020	1,115,250
735,000	184,875	184,875	2021	1,104,750
740,000	166,500	166,500	2022	1,073,000
740,000	148,000	148,000	2023	1,036,000
740,000	129,500	129,500	2024	999,000
740,000	111,000	111,000	2025	962,000
740,000	92,500	92,500	2026	925,000
740,000	74,000	74,000	2027	888,000
740,000	55,500	55,500	2028	851,000
740,000	37,000	37,000	2029	814,000
740,000	18,500	18,500	2030	777,000
<u>\$ 13,925,000</u>	<u>\$ 5,363,667</u>	<u>\$ 5,273,797</u>		<u>\$ 24,562,464</u>

The above bond issue bears interest at rates ranging from 3.00% to 5.00%. The bond proceeds were used for refunding a portion of the School District's outstanding 2000 School Building and Site Bonds.

**ALLEGAN PUBLIC SCHOOLS  
BONDED DEBT  
JUNE 30, 2005**

\$463,213 1998 School Improvement Bonds (Durant Bonds)  
issued November 24, 1998 (Limited Obligation Bonds)

Principal due May 15,	Interest due May 15,	Debt service requirement for fiscal year	
		June 30,	Amount
\$ 106,079	\$ 47,422	2006	\$ 153,501
23,483	9,040	2007	32,523
24,607	7,921	2008	32,528
25,779	6,750	2009	32,529
27,006	5,522	2010	32,528
28,292	4,237	2011	32,529
29,637	2,889	2012	32,526
31,048	1,478	2013	32,526
<u>\$ 295,931</u>	<u>\$ 85,259</u>		<u>\$ 381,190</u>

The above bond issue bears interest at 4.76%.

This bond, including the interest hereon, is issued in anticipation of payments appropriated and to be appropriated by the State under Section 11g(3) of Act 94 to the School District (the "State Aid Payments"). The School District hereby pledges and assigns to the Authority all of its rights to and in such State Aid Payments as security for this bond and the State Aid Payments which are hereby pledged shall be subject to a statutory lien in favor of the Authority as authorized by Act 94. This bond is a self-liquidating bond and is not a general obligation of the School District and does not constitute an indebtedness of the School District within any constitutional or statutory limitation, and is payable both as to principal and interest, solely from such State Aid Payments. The School District, as requested by the Authority, hereby irrevocably authorizes the payment of the State Aid Payments directly to the Authority's Depository.

**ALLEGAN PUBLIC SCHOOLS  
DEMAND PROMISSORY NOTE  
JUNE 30, 2005**

\$150,456 Note issued June 17, 2004:

Principal due June 17,	Interest Due		Debt service requirement for fiscal year	
	December 17,	June 17,	June 30,	Amount
\$ 50,152	\$ 1,625	\$ 1,625	2006	\$ 53,402
50,152	812	812	2007	51,776
<u>\$ 100,304</u>	<u>\$ 2,437</u>	<u>\$ 2,437</u>		<u>\$ 105,178</u>

The above note bears interest at 3.24%. The note was used to purchase buses for the school district.

**ALLEGAN PUBLIC SCHOOLS**  
**SCHEDULE OF BORROWING - STATE OF MICHIGAN**  
**SCHOOL BOND LOAN FUND**  
**JUNE 30, 2005**

Amounts needed for the payment of bond principal and interest in excess of receipts from property taxes are borrowed from the Michigan School Bond Loan Fund. These loans, together with accrued interest payable thereon, are to be repaid when the debt retirement millage rate provides funds in excess of the amounts needed to pay current bond maturities and interest. The borrowings from the State of Michigan under this program have been summarized as follows:

<u>Year ended June 30,</u>	<u>Loan proceeds</u>	<u>Accrued interest</u>	<u>Net increase</u>	<u>Balance</u>
2000	\$ 417,581	\$ 14,521	\$ 432,102	\$ 432,102
2001	1,199,605	31,801	1,231,406	1,663,508
2002	1,357,660	80,220	1,437,880	3,101,388
2003	268,991	111,985	380,976	3,482,364
2004	1,426,095	117,002	1,543,097	5,025,461
2005	203,987	152,352	356,339	5,381,800

**ALLEGAN PUBLIC SCHOOLS**  
**ADDITIONAL REPORTS REQUIRED BY**  
**OMB CIRCULAR A-133**  
**YEAR ENDED JUNE 30, 2005**

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Leon A. Ellis (1933-1988)

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND  
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF  
FINANCIAL STATEMENTS PERFORMED  
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

To the Board of Education  
Allegan Public Schools  
Allegan, Michigan

August 5, 2005

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Allegan Public Schools as of and for the year ended June 30, 2005, which collectively comprise Allegan Public School's basic financial statements and have issued our report thereon dated August 5, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Allegan Public Schools' internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Allegan Public Schools' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

To the Board of Education  
Allegan Public Schools

August 5, 2005

We noted certain matters that we reported to management of Allegan Public Schools in a separate letter dated August 5, 2005.

This report is intended solely for the information and use of the board of education, management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Mayer, Costenaro & Ellis, P.C.*

Certified Public Accountants



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**REPORT ON COMPLIANCE WITH REQUIREMENTS  
APPLICABLE TO EACH MAJOR PROGRAM  
AND ON INTERNAL CONTROL OVER COMPLIANCE  
IN ACCORDANCE WITH OMB CIRCULAR A-133**

To the Board of Education  
Allegan Public Schools  
Allegan, Michigan

August 5, 2005

Compliance

We have audited the compliance of Allegan Public Schools with the types of compliance requirements described in the *U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to its major federal program for the year ended June 30, 2005. Allegan Public Schools' major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program are the responsibility of Allegan Public Schools' management. Our responsibility is to express an opinion on Allegan Public Schools' compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Allegan Public Schools' compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Allegan Public Schools' compliance with those requirements.

In our opinion, Allegan Public Schools complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2005.

August 5, 2005

### Internal Control Over Compliance

The management of Allegan Public Schools is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs.

In planning and performing our audit, we considered Allegan Public Schools' internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

### Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Allegan Public Schools as of and for the year ended June 30, 2005, and have issued our report thereon dated August 5, 2005. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise Allegan Public Schools' basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of the board of education, management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



Certified Public Accountants

**ALLEGAN PUBLIC SCHOOLS**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**FOR THE YEAR ENDED JUNE 30, 2005**

Federal grantor/pass-through grantor/ program title	Federal CFDA number	Approved grant award amount	Accrued (deferred) revenue July 1, 2004	Prior year expenditures	Current year expenditures	Current year cash receipts	Accrued (deferred) revenue June 30, 2005
<b>U.S. Department of Agriculture:</b>							
Passed through Michigan Department of Education:							
Child Nutrition Cluster:							
National School Lunch Program:	10.555						
41950 & 41960 Lunch (2003-2004)		\$ 262,933	\$	\$ 230,683	\$ 32,250	\$ 32,250	\$
51950 & 51960 Lunch (2004-2005)		242,189			242,189	242,189	
Total National School Lunch Program		505,122		230,683	274,439	274,439	
National School Breakfast Program	10.553						
41970 Breakfast (2003-2004)		62,626		56,072	6,554	6,554	
51970 Breakfast (2004-2005)		58,448			58,448	58,448	
Total National School Breakfast Program		121,074		56,072	65,002	65,002	
Special Milk Program for Children	10.556						
41940 Special Milk Program (2003-2004)		2,188		1,780	408	408	
51940 Special Milk Program (2004-2005)		2,102			2,102	2,102	
Total Special Milk Program for Children		4,290		1,780	2,510	2,510	
Total Child Nutrition Cluster		630,486		288,535	341,951	341,951	
Food Distribution:							
Entitlement Commodities	10.550	41,549			41,549	41,549	
Bonus Commodities		362			362	362	
Total USDA Non-Cluster Assistance		41,911			41,911	41,911	
<b>Total U.S. Department of Agriculture</b>		<b>672,397</b>		<b>288,535</b>	<b>383,862</b>	<b>383,862</b>	

The accompanying notes are an integral part of this schedule.

**ALLEGAN PUBLIC SCHOOLS**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**FOR THE YEAR ENDED JUNE 30, 2005**

Federal grantor/pass-through grantor/ program title	Federal CFDA number	Approved grant award amount	Accrued (deferred) revenue July 1, 2004	Prior year expenditures	Current year expenditures	Current year cash receipts	Accrued (deferred) revenue June 30, 2005
<b>U.S. Department of Education:</b>							
Passed through Michigan Department of Education:							
Title I:	84.010						
Project number 041530-0304		\$ 457,824	\$ 1,744	\$ 416,567	\$ 41,257	\$ 43,001	\$
Project number 051530-0405		415,579			343,436	330,111	13,325
Total Title I		873,403	1,744	416,567	384,693	373,112	13,325
Title V:	84.298						
Project number 040250-0304		2,392		136	2,256	2,256	
Project number 050250-0405		1,818			1,818	1,818	
Total Title V		4,210		136	4,074	4,074	
Ed Tech - Formula Grants	84.318						
Project number 034290-0304		10,810	3,400	10,810		3,400	
Project number 044290-0304		11,077	967	8,250	2,827	3,794	
Project number 054290-0405		10,562			9,396	9,151	245
Total Ed Tech		32,449	4,367	19,060	12,223	16,345	245
Improving Teacher Quality:	84.367						
Project number 040520-0304		148,076	24,053	148,076		24,053	
Project number 050520-0405		147,194			132,742	129,002	3,740
Total Improving Teacher Quality		295,270	24,053	148,076	132,742	153,055	3,740
Total passed through Michigan Department of Education		1,205,332	30,164	583,839	533,732	546,586	17,310

The accompanying notes are an integral part of this schedule.

**ALLEGAN PUBLIC SCHOOLS**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**FOR THE YEAR ENDED JUNE 30, 2005**

Federal grantor/pass-through grantor/ program title	Federal CFDA number	Approved grant award amount	Accrued (deferred) revenue July 1, 2004	Prior year expenditures	Current year expenditures	Current year cash receipts	Accrued (deferred) revenue June 30, 2005
<b>U.S. Department of Education (Concluded):</b>							
Passed through Allegan County Intermediate School District:							
Transition Services:	84.027						
Project number 050490-1TS		\$ 995	\$	\$	\$ 995	\$ 995	\$
Total Transition Services		995			995	995	
PL94-142 Pre School Incentive:	84.173						
Project number 050460-1		12,068			12,068	12,068	
		12,068			12,068	12,068	
Total passed through Allegan County Intermediate School District		13,063			13,063	13,063	
Pass through Ottawa County Intermediate School District:							
Drug Free Schools and Communities		18,632			18,632	18,632	
		18,632			18,632	18,632	
<b>Total U.S. Department of Education</b>		1,237,027	30,164	583,839	565,427	578,281	17,310
<b>TOTAL FEDERAL AWARDS</b>		\$ 1,909,424	\$ 30,164	\$ 872,374	\$ 949,289	\$ 962,143	\$ 17,310

The accompanying notes are an integral part of this schedule.

**ALLEGAN PUBLIC SCHOOLS**  
**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**FOR THE YEAR ENDED JUNE 30, 2005**

**NOTE 1 - BASIS OF PRESENTATION**

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Allegan Public Schools and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial statements.

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

1. The Child Nutrition Cluster, CFDA #10.553, #10.555 and #10.556 was audited as a major program and represents 36% of expenditures.
2. The threshold for distinguishing Type A and B programs was \$300,000.
3. Expenditures on this schedule reconcile with amounts reported in the financial statements and financial reports submitted to the Michigan Department of Education.
4. Management has utilized the R7120, Grant Section Auditors' Report, in preparing the schedule of expenditures of federal awards.
5. The amounts reported on the Receipt Entitlement Balance Report agree with this schedule for USDA donated food commodities.

**NOTE 3 - RECONCILIATION OF FEDERAL REVENUE**

The current year expenditures on the Schedule of Expenditures of Federal Awards agrees to the federal revenue reported in the financial statements.



**ALLEGAN PUBLIC SCHOOLS  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2005**

**Section I - Summary of Auditors' Results**

---

***Financial Statements***

Type of auditors' report issued: *Unqualified*

Internal control over financial reporting:

- Material weakness(es) identified?        Yes   X   No
- Reportable condition(s) identified that are not considered to be material weaknesses?        Yes   X   None reported
- Noncompliance material to financial statements noted?        Yes   X   No

***Federal Awards***

Internal control over major programs:

- Material weakness(es) identified:        Yes   X   No
- Reportable condition(s) identified that are not considered to be material weakness(es)?        Yes   X   None reported

Type of auditors' report issued on compliance for major programs: *Unqualified*

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133?        Yes   X   No

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
<u>#10.553, #10.555, and #10.556</u>	<u>Child Nutrition Cluster</u>

Dollar threshold used to distinguish between type A and type B        \$ 300,000

Auditee qualified as low-risk auditee?   X   Yes        No

**Section II - Financial Statement Findings**

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None

**Section III - Federal Award Findings and Questioned Costs**

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None

**ALLEGAN PUBLIC SCHOOLS  
SCHEDULE OF PRIOR AUDIT FINDINGS  
FOR THE YEAR ENDED JUNE 30, 2005**

There were no prior year audit findings for the year ended June 30, 2004.



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August 5, 2005

To the Board of Education  
Allegan Public Schools  
Allegan, Michigan

In planning and performing our audit of the financial statements of Allegan Public Schools for the year ended June 30, 2005, we considered the District's internal control in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on internal control.

However, during our audit we became aware of certain matters that are opportunities for strengthening internal controls and operating efficiency. The comments and suggestions regarding those matters follow. This letter does not affect our report dated August 5, 2005, on the financial statements of Allegan Public Schools.

### **Prior Year Management Comments**

#### General Journal Entries

Journal entries, which are initiated at the management level, should be approved as part of the normal internal control process.

#### Resolution:

The finance manager, accounts payable clerk, and payroll clerk are the only individuals capable of posting journal entries. The entries are reviewed on a monthly basis when the bank statement and monthly financials are produced.

Government Accounting Standards Board (GASB) Statement #40 “*Deposit and Investment Risk Disclosures*”

Effective June 30, 2005, governmental entities will be required to expand their current disclosure requirements addressing common risks of the deposits and investments. The disclosure requirements apply to debt and an equity investment held directly by the entity or indirectly by investment advisors and requires that a governmental entity disclose investment policies that are related to custodial credit risk, custodial risk, concentration of credit risk, interest rate risk, and foreign currency risk. If the entity has adopted no policy with respect to a particular risk, that fact should be part of the disclosure.

The District should review its investment policies to determine all common risks areas are identified and the appropriate level of risk of each area is quantified.

Resolution:

The District has drafted an investment policy which it will present at the September 12, 2005 Board meeting.

Financial Information Database (FID) Filing

The Center for Educational Performance and Information (CEPI) is preparing for the implementation of a new upload application/database for financial reporting for school districts in Michigan. This new application/database is called the Financial Information Database (FID). This submission is due November 15, 2005. The EDN/Form B submission process has been eliminated and is no longer available. We strongly recommend your filing be done earlier this year to ensure all changes have been accepted. The penalty for late filing is withholding of your state aid by the state of Michigan.

Resolution:

The District has successfully uploaded the 2004 file into the Financial Information Database.

Review Payroll before it is disbursed

The finance manager currently initiates the payroll allocation. This control is crucial to the operation of an internal payroll function. To improve the effectiveness of the control, we recommend that the finance manager review the allocation periodically throughout the year.

Resolution:

The business manager reviews payroll reports on a monthly basis and the payroll allocation is automatically performed when the payroll clerk performs the payroll process.

Title I Worksheet for School Selection and Allocation of Funds

The Title I worksheet is to be completed prior to the beginning of the school year to determine how Title I funds should be allocated to the appropriate schools. During the year, subsequent review found no problems, however this review should be done at the beginning of the year.

Resolution:

The business manager should continue to monitor the preparation of the Title I worksheet at the beginning of the school year.

**Current Year Management Comments**

New Rules For §403(B) Plans

Proposed regulations were issued last year that require a written plan document for §403(b) plans. The plan must contain all the material terms and conditions for eligibility, benefits, contribution limitations, the annuity contracts or accounts available or used under the plan for funding, and the time and form under which benefit payments will be made. There is no requirement that a single document must be used.

The IRS recently announced that they are delaying the effective date for these rules until plan years beginning after December 31, 2006. Therefore, no action is necessary at this time.

Imprest Payroll Account

An imprest payroll bank account should be established and transfers made in the exact amount of the net pay disbursed. The exact amount of net pay should be transferred to the payroll bank account. This procedure allows for a timely, effective reconciliation of the payroll bank account. Further, the control limits exposure to unauthorized disbursements from the imprest account.

Improve internal controls relating to the payroll process

The individual who has the responsibility to add and delete employees can also change the pay rate or other relevant information. In addition, this person directly receives all of the payroll reports, along with the payroll checks.

We recommend that the business manager receive the reports directly from the preparer. The report should then be reviewed to ensure that there are no fictitious employees and that the payroll appears reasonable. The reports do not have to be reviewed in detail, but should be scanned to ensure there are no obvious errors or irregularities. The person responsible for processing payroll would still be responsible for ensuring the overall accuracy of the report. We also recommend that the person who processes the report be restricted from handling the payroll checks before distribution.

In addition, there should be written documentation for the procedures of processing payroll, reviewing the reports to ensure accuracy, and distribution of the payroll checks. This will facilitate the process, should those responsible be absent. Payroll policies should be incorporated into the accounting policies and procedures manual.

A comprehensive disaster recovery plan should be developed and tested

Without a written tested disaster recovery plan, the District increases its exposure to business interruption. Accordingly, a disaster recovery plan should be developed and periodically tested. A copy of the plan should be stored in an off-site vault with backup tapes. Such a plan should address the following areas:

- Identification of the critical application systems and the minimum acceptable run frequency and turnaround times;
- Consideration of manual processing alternatives and length of time they could feasibly operate;
- Identification of a back-up processing site, including a formalized arrangement for utilizing the facility;
- Compatibility of system software at the back-up site;
- Requirements for data file back-up, system documentation, equipment and detailed action plans for each critical application; and
- Personnel to be notified in the event of a disruption and the responsibilities of key EDP and user personnel.

A formal disaster recovery plan is desirable to define the procedures required by the District to continue operations with a minimum of disruption during system “down time”. The plan should also describe user recovery procedures when on-line service is subsequently available. The plan should be updated and tested on a regular basis.

#### Periodically Change Computer Passwords

We understand that computer passwords are not changed on a regular basis. In order to reduce the risk of access to computer files by unauthorized personnel, we recommend that the District institute a policy that requires passwords to be changed on a regular basis. The District may also wish to investigate building into its software automatic expiration of passwords to ensure that they are changed periodically.

#### General Ledger Reconciliation

The District does not reconcile all general ledger account balances on a monthly basis. This resulted in audit adjustments to reconcile differences and to record the actual year-end balances for accounts receivable, prepaid expenses, fixed assets, accounts payable, payroll accruals, and deferred revenue. Without the performance of periodic account reconciliations, information provided to management may not be accurate, thereby affecting management decisions. Furthermore, the probability that additional errors could occur and go undetected for a long time is greatly increased.

We recommend that the significant balance sheet accounts be reconciled on a monthly basis. Also, all reconciliations should be reviewed by a designated individual to ensure accuracy and completeness and to verify that reconciled items have been properly handled.

In addition to the above, we also recommend that all bank and investment accounts for each fund be reconciled monthly to a specific general ledger account to allow for ease of distinguishing reconciling items for each fund.

#### Separate Debt Service Funds

Currently, all of the debt service fund assets, liabilities, equity and activities are recorded in one fund. To improve cash flow operations and reconciling procedures, we recommend that each debt service fund be broken out into its own fund noting all individual balances and activity.



To the Board of Education  
Allegan Public Schools  
Allegan, Michigan

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August 5, 2005

We will review the status of these comments during our next audit engagement. We have already discussed many of these comments and suggestions with various District personnel, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

This report is intended solely for the information and use of Allegan Public Schools, management, and others within the organization, and is not intended to be and should not be used by anyone other than these specified parties.

We appreciate the cooperation we received from your staff during our engagement and the opportunity to be of service.

Very truly yours,

*Manner, Costenisan & Ellis, P.C.*



Lamonte T. Lator  
Bruce J. Dunn  
Jeffrey C. Stevens  
Linda I. Schirmer  
Steven W. Scott  
David M. Raack  
Robert E. Miller, Jr.  
Steven B. Robbins  
James E. Nyquist  
James R. Dedyne

Timothy H. Adams  
David B. Caldwell  
Edward L. Williams, III  
Timothy J. Orians  
Dennis D. Theis

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Walter P. Maner, Jr. (1921-2004)  
Floyd L. Costerisan  
Leon A. Ellis (1933-1988)

August 5, 2005

To the Finance Committee  
Allegan Public Schools  
Allegan, Michigan

We have audited the financial statements of Allegan Public Schools for the year ended June 30, 2005, and have issued our report thereon dated August 5, 2005. Professional standards require that we provide you with the following information related to our audit.

1. Our Responsibility under U.S. Generally Accepted Auditing Standards and OMB Circular A-133

As stated in our engagement letter, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance about whether the financial statements are free of material misstatement and are fairly presented in accordance with U.S. Generally Accepted Accounting Standards. Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

In planning and performing our audit, we considered the Allegan Public Schools' internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. We also considered internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

As part of obtaining reasonable assurance about whether the Allegan Public Schools' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit. Also, in accordance with OMB Circular A-133, we examined, on a test basis, evidence about the Allegan Public Schools' compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement applicable to each of its major federal programs for the purpose of expressing an opinion on the Allegan Public Schools' compliance with those requirements. While our audit provides a reasonable basis for our opinion, it does not provide a legal determination on the Allegan Public Schools' compliance with those requirements.

2. Significant Accounting Policies

Management has the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by Allegan Public Schools are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2005 except for the new investment policy. We noted no transactions entered into by Allegan Public Schools during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

3. Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

Management's estimate of the liability of the payout for employee compensated absences upon their retirement is based on expected payouts; the balance reported was approximately \$127,000. We evaluated the key factors and assumptions used to develop the balance of compensated absences in determining that it is reasonable in relation to the financial statements taken as a whole. Certain property and equipment was initially recorded using estimates by an appraisal company.

4. Audit Adjustments

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the Allegan Public Schools' financial reporting process (that is, cause future financial statements to be materially misstated). In our judgment, none of the adjustments we proposed, whether recorded or unrecorded by the Allegan Public Schools, either individually or in the aggregate, indicate matters that could have a significant effect on the Allegan Public Schools' financial reporting process. Management has approved all adjustments.

5. Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

6. Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

7. Issues Discussed Prior to Retention of Independent Auditors

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Allegan Public Schools' auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

8. Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing our audit.

This information is intended solely for the use of the board of education, management, and federal awarding agencies and pass through entities and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

A handwritten signature in black ink that reads "Mamer, Costeniser & Ellis, P.C." The signature is written in a cursive, flowing style.